

Message Text

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22

ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 TRSE-00 FRB-03 CIAE-00 INR-07
NSAE-00 /024 R

DRAFTED BY EB/IFD/OMA: S R PRUETT

APPROVED BY EB/IFD/OMA: R J RYAN

TREASURY: C BAKER (SUBS)

ARA/PAN: D WAGNER

----- 024358

R 070250Z DEC 76

FM SECSTATE WASHDC

TO AMEMBASSY PANAMA

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E.O11652: GDS

TAGS: EFIN, PN

SUBJECT: PANAMA'S CURRENCY SYSTEM

REF: KEIL MEMCON OF OCTOBER 22, 1976

1. DEPARTMENT CONTACTED TREASURY AND CHASE MANHATTAN, NEW YORK TO ASCERTAIN CURRENT METHOD FOR REPLACING WORN OUT CURRENCY IN PANAMA. WHEN ADDITIONAL CURRENCY IS NEEDED CHASE BALBOA CABLES TREASURY AND FEDERAL RESERVE IN NEW YORK, WHICH AUTHORIZES THE BUREAU OF PRINTING AND ENGRAVING TO SHIP NEW CURRENCY TO BALBOA. THE TREASURY ACCOUNT AT THE FED IS CHARGED WHEN CURRENCY IS SHIPPED AND CREDITED WHEN UNFIT CURRENCY IS RETURNED.

2. CLOSING OF CASH ROOM REFERRED TO IN REF DID CAUSE SOME INTERRUPTION IN SHIPMENTS DURING CHANGEOVER IN SYSTEM BUT CURRENCY SUPPLY SHOULD NOW BE ADEQUATE. THE SIZE OF CUSTODY ACCOUNT IS BEING REDUCED FROM 20 MILLION TO THE MINIMUM AMOUNT CHASE HAS DETERMINED ADEQUATE TO MEET THE NEEDS OF ISTHMUS. FREQUENCY OF SHIPMENT CAN BE ADJUSTED TO SUIT CHANGING DEMAND.

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3. TREASURY IS AWARE OF DOLLAR'S SPECIAL ROLE IN PANAMA AND WILL CONSULT WITH STATE SHOULD THERE BE ANY NEED TO ALTER THE PRESENT SYSTEM. THERE IS NO IMMEDIATE PLAN TO CLOSE THE CUSTODY ACCOUNT. HOWEVER, CASH HELD AT BALBOA DOES REPRESENT A COST TO THE TAXPAYER, SINCE IN THE ABSENCE OF SUCH A DEPOSIT U.S. GOVERNMENT BORROWING COULD BE REDUCED. A DIRECT ARRANGEMENT BETWEEN THE BANKS IN PANAMA AND THE FEDERAL RESERVE COULD PROBABLY BE ESTABLISHED BUT THIS WOULD BE COSTLY TO THE BANKS SINCE THEY WOULD HAVE TO SUBSTITUTE THEIR OWN FUNDS FOR THOSE OF THE U.S. TREASURY. THE PRESENT SYSTEM SEEMS SATISFACTORY UNTIL STATE AND TREASURY HAVE HAD A CHANCE TO STUDY THE MATTER IN DEPTH. THE EMBASSY WILL BE CONSULTED WHEN ANY CHANGE IN CURRENT POLICY IS CONSIDERED.

4. THE EMBASSY IS REQUESTED TO REPORT FURTHER IF THERE REMAINS AN EXCESS OF UNFIT CURRENCY IN PANAMA. COMMENT: WE ARE SOMEWHAT SURPRISED THAT CHASE DID NOT RAISE THIS MATTER WITH THE EMBASSY UNTIL OCTOBER 22, BY WHICH TIME ANY DIFFICULTIES SHOULD HAVE DISAPPEARED. KISSINGER

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Margaret P. Grafeld
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